

UTAH STATE REVOLVING FUND ANNUAL REPORT FISCAL YEAR 2001



Government Rapid, lower San Juan River, Utah
picture by Sandra Thorne-Brown

**UTAH STATE
REVOLVING FUND**

**FINANCIAL
STATEMENTS**

FISCAL YEAR 2001

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Executive Summary

The Utah State Water Quality Revolving Fund (the SRF) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (the Act). The SRF provides low interest rate loans to finance the construction of publicly owned water quality preservation and protection facilities.

The SRF is directly administered by the Utah Department of Environmental Quality through the Division of Water Quality. The Utah Water Quality Board (the Board), an eleven member board of officials appointed by the Governor, develops policies and procedures for program implementation and authorizes loans under the SRF. The Division of Water Quality's primary SRF activities include administering loans for water quality preservation and protection facilities and managing and coordinating the fund.

The Division of Water Quality serves as staff for the Board and the SRF. The Division of Water Quality has eighteen staff that devote some portion of their time to the SRF. The Division of Water Quality receives assistance and support from the Department of Environmental Quality Office of Support Services, the State Division of Finance, the Attorney General's Office and the State Treasurer's Office. The salaries and benefits of the employees, as well as indirect costs based on direct salary costs, are charged to the SRF. Employees charging time to the SRF are covered by the State of Utah personnel benefits plan. The SRF is also charged State indirect costs through a cost allocation plan for general state expenses.

Beginning in fiscal year 1993, Utah established a hardship grant program with the approval of the Environmental Protection Agency. This new program was funded in part from hardship grant assessment fees on SRF loans in lieu of interest. Hardship grant assessment fees are stripped from repayments and deposited in a special hardship grant fund outside of the SRF. The monies deposited in the hardship grant fund can then be used to provide grant money to communities that would otherwise be financially unable to participate in the SRF loan program. Hardship Grant Assessments, grants and hardship grant fund interest earnings are not accounted for in SRF financial statements. Hardship grant assessments which are charged to loans funded with "funds made directly available" beginning with all loans closed after July 1, 1999 will be used in accordance with EPA policies and regulations.

Utah also operates a State loan program. This program provides Utah the flexibility to fund needed water quality projects without certain restrictions that accompany the SRF program; also, state match funds for the SRF have been generated from the State program.

Mission or Vision Statement

The mission of the Department of Environmental Quality is to safeguard human health and quality of life by protecting and enhancing the environment.



Goals and Accomplishments

The SRF has provided financial assistance to communities for wastewater facilities. A concerted effort will be made when needed to expand the type of projects that will be funded in the future. Projects which preserve and protect the quality of water in Utah will be considered for financial assistance, without limiting those projects to treatment of municipal waste.

Long-term Program Goals:

Goal #1 - To provide a permanent source of funding which can be used in combination with financing from the community's own resources and other funding sources to assist communities in financing needed water quality construction projects.

- (The SRF is meeting Goal #1. All projects which have been or will be funded from the SRF will receive loans which require an annual repayment of principal over a term no longer than twenty years. The fund balance has been increasing steadily since the fund was established. There is good reason to believe that the fund will continue to generate a repayment stream which will fund projects in the years to come.

Goal #2 - To evaluate environmental needs within the state in order to rate specific needs for water quality construction and allow SRF funds to be distributed in a priority manner to the most environmentally needy projects.

- (All of the projects which have received loans or are planned to receive loans from the SRF are high priority projects which are meeting a critical need as defined by the Utah State Project Priority System.

Goal #3 - To evaluate economic needs of the communities determined to have an environmental need for water quality construction projects to allow the State to offer financial assistance which provides sufficient and affordable project funding to communities and also allows the State to maximize the best use of the SRF fund in perpetuity.

- (The SRF attempts to balance the environmental and economic need for funds with a desire to continue the source of funding for the Program in perpetuity. Before a project is authorized for a loan from the SRF a financial feasibility review is performed. This review evaluates the rate of interest which the applicant can afford to pay and their ability to repay a loan. A loan authorization is not made unless the applicant is determined to be capable of repaying the loan.

The Hardship Grant Program was created specifically to provide a source of funding for projects which would, due to financial reasons, otherwise not be able to proceed.

- (In assisting communities to address their needs for adequate wastewater facilities, the Water Quality Board recognizes that such facilities must be sized for future growth. However, in helping communities provide wastewater infrastructure for existing and future users the Board should be satisfied that proper and adequate planning has taken place so that environmental and quality of life problems associated with sprawl are not fostered by the projects it funds.

Short-term Program Goals:

Goal #1 - To assist communities during facility planning and preparation of their application for funding. Authorize funding for the projects earmarked for funding in the Intended Use Plan.

- (Each community which was identified in the IUP has received assistance with facility planning and funding application preparation.

Goal #2 - To assist communities funded with SRF assistance to complete construction.

- (The Division of Water Quality has assisted all communities which have received funding from the SRF with design review and guidance through construction. When construction is complete the community also receives continued assistance with operation and maintenance of their facility.

Details of Accomplishments

Fund Financial Status

The Fund has received State Revolving Fund Capitalization Grants from EPA and has obligated state matching funds in an amount greater than a total of 20% of the grant.

The fund receives revenues from interest earned on loans and interest earned on invested funds. The net income from fund activities continues to increase and the fund balance is increasing steadily.

The Statement of Revenues, Expenses, and Fund Balance appears in the financial report section of this report.

Assistance Activity

Forty-five loans have been closed; forty projects financed; all forty projects have begun construction; and thirty-two of the projects have completed construction. See Table 1 for details.

Provisions of the Operating Agreement/Conditions of the Grant

The State of Utah agreed to twenty-three conditions in the Operating Agreement. Twelve conditions have been met and need no further description and eleven conditions have been met and are more fully described below. The following conditions have been met as described in the Operating Agreement:

- Agreement to Accept Payments
- State Laws and Procedures
- State Accounting and Auditing Procedures
- Recipient Accounting and Auditing Procedures
- Use of the LOC
- Repayments
- Annual Audit
- Annual Report
- Annual Review
- Anti-lobbying
- Drug Free Workplace
- Rural Area Business Enterprise Development Plan

The following conditions have been met as described more fully below:

1. **Provide State Match** - State matching funds have either been added to the fund or committed to the SRF in the amount required by the Clean Water Act. State match funds are available from the Utah Wastewater Project Assistance Program.

2. **Binding Commitments Within One Year** - The Utah State Revolving Fund has exceeded the program requirement for binding commitments equal to 120% of the grant amount within a year after receiving payments.
3. **Expeditious and Timely Expenditure** - Utah has disbursed all cash draws in a timely and expeditious manner. Construction has begun on all SRF projects within a short period after loans are closed. See Tables 1 & 2 for details.
4. **First Use For Enforceable Requirements** – Prior to receiving the capitalization grant, Utah had met the requirements of Section 602(b)(5) of the Clean Water Act. This section requires that all funds as a result of the capitalization grant be used first to assure maintenance of progress toward compliance with enforceable deadlines, goals and requirements of the Clean Water Act.
5. **Eligible Activities of the Fund** - All of the projects which have received SRF loans have either expended loan proceeds for eligible costs or used “banked equivalency”.
6. **Compliance With Title II Requirements** - In accordance with Section 602(6) of the Clean Water Act the SRF is required to meet sixteen specific Title II “equivalency” requirements for those Section 212 wastewater treatment projects constructed in whole or part before October 1, 1994, with funds “directly made available by” the capitalization grant. The State has met equivalency requirements up to October 1, 1994 and documented that compliance in previous annual reports. Since there was no requirement under this statute beyond the October 1, 1994 date, there has been no additional reporting for equivalency in this report.
7. **MBE/WBE Requirement** - The State negotiated with Region VIII fair share utilization goals for participation on activities financed by the SRF. During the state fiscal year the SRF program has met or exceeded the minimum Disadvantaged Business Enterprise (DBE) utilization program requirements. Construction projects have either implemented fair share utilization goals for DBE participation or have demonstrated that a good faith effort was made to provide opportunity for qualified DBE involvement.
8. **Other Federal Authorities** - The State and all recipients of SRF funds directly made available by the capitalization grant have complied with applicable federal authorities. Recipients of SRF assistance agreed to do this as a condition of the bond agreement between the loan recipient and the State.
9. **State Environmental Review Process** - During the fiscal year the State was actively involved assisting potential SRF projects with planning. Environmental impacts are being carefully considered with each plan. No loans are closed with a community until a Categorical Exclusion, a Finding of No Significant Impact or an Environmental Impact Statement is issued.

10. **Cash Draw Procedures** - Table 2 of this report describes the amount of funds drawn from the federal letter of credit and from the state match for projects and administration for the fiscal year.
11. **Outlay Projections** - The FY01 IUP projected draws from the federal letter of credit of \$12,795,000. During fiscal year 2001 a total \$8,419,300 was actually drawn - the projection was approximately 152% of the actual amount. One project which was anticipated to receive a binding commitments during FY01 was funded from another source and another project did not proceed as quickly as projected.

Current Status and Proposed Improvements

The State Revolving Fund has grown into a permanent source of financial assistance for construction of water quality projects in the State of Utah. The fund balance has been growing steadily since the fund was first established.

There are many water quality projects every year in Utah which do not receive funding directly from the SRF. Utah leverages the funds available by encouraging self-reliance through prudent planning and by cooperative efforts with communities and other sources of available financial assistance.

Many of the larger wastewater treatment facilities in high population areas of the state have developed their own sources of financing wastewater facilities construction without the benefit of the State Revolving Fund. Medium-sized communities rely heavily on the SRF to provide the additional assistance they need to make wastewater treatment affordable to their citizens; and communities with small population use the SRF in combination with grants and loans from the WQ Hardship Grant Program, the Rural Development Administration and the Utah Permanent Community Impact Board.

It is anticipated that the Utah State Project Priority List will be expanded in the coming years to extend the definition of the type of projects which will be eligible for financial assistance through the SRF. Utah anticipates working closely with state watershed coordinators to provide assistance for non-traditional water quality projects in the future.

Management

Utah Water Quality Board is the governing board for the State Revolving Fund. The Board sets policy and authorizes assistance. The State Revolving Fund is primarily managed by the Construction Assistance Section of the Division of Water Quality.

The Construction Assistance Section of the Division of Water Quality is comprised of five licensed professional engineers, one accountant, one environmental scientist, one accounting technician and one office technician. Unexpended funds are invested by the State Treasurer in the Public Treasurer's Investment Fund in accordance with the Utah Money Management Act. Official financial records including maintenance of the bonds and record of payments are managed by the Division of Finance. The SRF is included in the Utah Comprehensive Annual Report and is audited in accordance with the Single Audit Act by the Utah State Auditor's Office.

Table 1							UTAH STATE REVOLVING FUND - ACCOMPLISHMENTS to 6/30/01										
PROJECT	IDENTIFICATION				Hardship			Planned		Actual		Planned		Actual		Planned	Actual
Recipient Name	Project Number	Type*	%		Assmt	Term	Need	Loan Amount		Binding Commitment		Construction Start		Construction Complete			
Smithfield City	C490283	101	L	0.00%		20 yrs	IVa&b	3,630,300	3,630,300	May-88	Aug-88	Jun-88	Aug-88	Oct-89	Aug-90		
South Davis SID - North	C490275	102	L	3.00%		20 yrs	I	4,498,440	4,498,000	Jan-89	Jan-89	May-88	Sep-88	Oct-90	Oct-91		
Central Davis SID - Ph 4	C490285	103a	L	3.00%		20 yrs	I	1,250,000	1,250,000	Aug-88	Feb-89	Aug-88	Feb-89	Feb-90	Aug-91		
Providence City	C490292	104	L	0.00%		18 yrs	IVa & b	3,500,000	3,500,000	Sep-89	Sep-89	Sep-89	Nov-90	Nov-90	Jan-91		
Solitude ID Phase I	C490298	105	L	0.00%		20 yrs	IVb	3,200,000	2,993,000	Sep-89	Mar-90	Sep-89	Apr-90	Jan-93	Jan-92		
Central Davis SID - Ph 5&6	C490285	103b	L	3.00%		20 yrs	I	1,150,000	1,150,000	Aug-88	Apr-90	Aug-88	Feb-89	Feb-90	Aug-91		
Central Davis SID - Ph 5&6	C490285	108	L	5.00%		20 yrs	I	500,000	850,000	Mar-90	Apr-90	Feb-90	Sep-88	Mar-91	Jun-91		
South Davis SID - North	C490275	107	L	5.00%		20 yrs	I	4,300,000	4,205,000	Feb-90	Aug-90	Aug-88	Feb-89	Sep-91	Nov-92		
Solitude ID (phase II & III)	C490298	112	L	0.00%		20 yrs	IVb&IVa	1,300,000	2,376,716	Mar-91	May-91	Jun-91	Apr-90	Jan-93	May-91		
Hyde Park City	C490301	106	L	0.00%		18 yrs	IV b	1,750,000	800,000	Dec-91	Dec-91	Sep-91	Jan-92	Jun-93	Mar-95		
South Weber City	C490300	114	L	0.00%		20 yrs	IVb&IVa	3,006,000	3,056,000	Mar-92	May-92	Jun-92	Jul-92	Sep-95	Oct-95		
South Davis SID - South	C490275	115	L	4.00%		20 yrs	I	3,441,000	4,475,000	Sep-92	Sep-92	Aug-92	Oct-92	Sep-94	Oct-95		
Aurora City	C490309	119	L	0.00%		20 yrs	IVb,IVa&I	965,000	965,000	May-93	Apr-93	Jul-93	Nov-93	Dec-95	Sep-94		
Timpanogos SD (sludge)	C490330	125	L	3.50%		10 yrs	II	1,300,000	1,300,000	Jun-93	Jun-93	Jul-93	Jun-93	Jul-94	Dec-93		
St George City	C490320	123	L	3.50%		20 yrs	I	4,000,000	4,000,000	Dec-93	Dec-93	Feb-94	Nov-94	Sep-97	Oct-98		
Santaquin City	C490306	109	L	0.00%		20 yrs	IVb,IVa&I	2,307,000	1,307,000	Dec-93	Feb-94	May-94	Apr-94	Jun-96	Dec-93		
Orem City	C490317	128	L	0.00%	3.50%	20 yrs	I	3,500,000	3,500,000	Feb-94	Apr-94	Mar-94	Aug-94	Sep-95	Jun-97		
North Davis Co. SID	C490328	126	L	0.00%	3.50%	20 yrs	II	4,000,000	4,000,000	Dec-93	Jun-94	Jan-94	Aug-94	Jan-96	Apr-96		
Snyderville Basin SID	C490313	122	L	0.00%	0.00%	20 yrs	I	2,500,000	2,500,000	Mar-94	Jun-94	Oct-95	Aug-94	Jun-96	Jun-97		
Magna ID	C490325	132	L	0.00%	3.50%	20 yrs	IVb, I	2,320,000	2,320,000	Feb-94	Jun-94	Mar-94	Jul-94	Sep-95	Jul-95		
Timpanogos SD	C490332	135	L	0.00%	4.00%	20 yrs	II	2,900,000	2,900,000		Jul-94		Jul-94	Oct-95	Apr-96		
Cedar City	C490305	117	L	0.00%	2.75%	20 yrs	I,II & IVb	12,010,000	12,010,000	Aug-94	Aug-94	Apr-94	Sep-94	Dec-96	Jun-97		
Provo City	C490323	131	L	0.00%	3.50%	7 yrs	II	1,185,000	1,185,000	Dec-94	Apr-95	Jul-95	Apr-95	Feb-96	Oct-96		
Midway Sanitation District	C490333	113	L	0.00%	3.00%	10 yrs	IVb	0	151,000	Dec-94	May-95	May-94	May-95	Jul-97	Dec-01		
Jordanelle SAD	C490322	130	L	0.00%	3.00%	10 yrs	IVb	2,137,000	2,736,000	Dec-94	May-95	May-94	May-95	Jul-97	Dec-01		
Mapleton City	C490294	116	L	0.00%		20 yrs	IVa & IVb	4,320,500	6,330,000	May-94	Jun-95	Mar-94	Jul-95	Dec-96	Dec-96		
Snyderville Basin SID	C490313	134	L	5.00%	0.00%	15 yrs	II	1,500,000	1,500,000	Jul-95	Jul-95	Jul-96	Aug-95	Aug-97	Apr-97		
Grantsville City	C490289	124	L	0.00%	0.00%	20 yrs	I	3,287,000	3,278,000	Jul-95	Aug-95	Sep-94	Sep-95	Dec-96	Oct-96		
Moab City	C490324	129	L	0.00%	4.50%	10 yrs	I	1,821,000	1,821,000	Apr-96	Sep-96	May-96	Oct-96	May-98	Mar-98		
Highland City	C490340	144	L	0.00%	4.00%	20 yrs	IVa & b	2,500,000	2,176,000	Apr-97	May-97	Apr-97	Apr-97	Apr-98	Apr-99		
Central Davis Co. SD	C490336	140	L	0.00%	4.50%	20 yrs	I	5,100,000	5,100,000	Jul-97	Jul-97	Aug-97	Aug-97	Sep-98	Oct-99		
St. George City	C490335	138	L	0.00%	1.00%	20 yrs	I & II	12,000,000	12,000,000	Sep-97	Sep-97	Oct-97	Oct-97	Sep-99			
Mapleton City	C490294-02	143	L	0.00%	0.00%	20 yrs	IVa&b	0	3,070,000		Dec-97		Jul-95		Dec-96		
Tooele City	C490303	111	L	0.00%	3.50%	20 yrs	I & II	7,570,000	7,570,000	Sep-97	Dec-97	Oct-97	Jan-98	Sep-99	Apr-01		
Washington City	C490319	213	L	0.00%	2.00%	20 yrs	Ivb&IIIa	3,356,000	3,356,000	May-99	May-99	Jun-99	Jun-99	Jun-01			
Minersville City	C490321	209	L	0.00%	1.00%	20 yrs	I	525000	525,000	Sep-99	Sep-99	Oct-99	Oct-99	Mar-00	Mar-00		
Ephraim City	C490273	212	L	0.00%	3.60%	20yrs	I	2,100,000	2,100,000	Sep-99	Sep-99	Oct-99	Oct-99	Dec-00			
Escalante City	C490347	214	L	0.00%	2.00%	20yrs	I	563,000	563,000	Oct-99	Oct-99	Oct-99	Oct-99	Mar-00	Mar-00		
Richfield City	C490355	204	L	0.00%	4.00%	20yrs	IIIb	4,000,000	4,000,000	Nov-99	Nov-99	Jan-99	Jan-99	Dec-00			
Price River WID	C490354	145	L	4.00%	0%	Jun-00	I	1,000,000	1,000,000	May-00	May-00	Jun-00	Jun-00	Jun-01	Mar-01		
Green River City	C490329	110	L	0.00%	0.00%	20yrs	IIIb	870,000	870,000	Jun-00	Jun-00	Jul-00	Jul-00	Jun-01			
Salina City	C490348	211	L	1.00%	0.00%	20yrs	IIIb & IVb	2,750,000	2,725,000	Mar-00	Aug-00	Apr-00	Sep-00	Feb-02			
Snyderville Basin (PR)	C490334	146	L	2.00%	0.00%	10yrs	I	4,000,000	4,190,000	May-00	Dec-00	Nov-00	Feb-01	Mar-02			
Sunnyside City	C490356	147	L	0.00%	0.00%	20yrs	IIIb	635,000	635,000	Apr-01	Apr-01	Apr-01	May-01	Apr-02			
West Haven SD	C490326	148	L	0.00%	0.00%	20yrs	Ivb	6,536,000	6,536,000	Sep-00	Apr-01	Nov-99	May-01	Feb-00			
total loans									141,003,016								
Administrative Assistance	N4900018810 thru CS490001001								4,354,384								
Total Binding Commitments									145,357,400								

Table 2

UTAH SRF - Cash Draw Schedule SFY 2001

Recipient Name	EPA Project Number	State Project Number	Assistance Amount	Funds to Disburse	Binding Commit.	Const. Start	Const CP	SFY 2001 1 Qtr	SFY 2001 2 Qtr	SFY 2001 3 Qtr	SFY 2001 4 Qtr	Total FY 2001
Washington City	C490319	213	3,505,500	1,275,500	May-99	Jun-99			126	600		726
Salina City	C490348	211	2,750,000	2,750,000	Aug-01	Sep-01		500		250		750
Price River WID	C490345	145	1,000,000	900,000	May-00	Jul-00		900				900
Snyderville Basin SID	C490334	146	4,190,000	4,190,000	Dec-00	Jan-01			500		2,365	2,865
Sunnyside City	C490356	147	635,000	635,000	Apr-01	May-01					635	635
Westhaven SSD	C490326	148	6,536,000	6,536,000	Apr-01	May-01					4,500	4,500
												0
Administration			610,000					98	91	104	91	384
TOTAL			19,226,500	16,286,500				1,498	717	954	7,591	10,760
Federal LOC								998	591	104	6,726	8,419
SRF Repaymt Fund								500	126	850	0	1,476
State Match								0	0	0	865	865

UTAH STATE REVOLVING FUND
UNAUDITED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2000 AND JUNE 30, 2001

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net income	\$ 1,940,461	\$ 2,109,502
Adjustments to reconcile operating income to net cash flow provided by operating activities:		
Capitalized interest	0	(28,997)
Loan principal repayments received	6,158,459	5,051,585
Loan advances	(10,376,000)	(10,331,348)
Changes in other assets and liabilities:		
(Increase)/decrease in loan interest receivable	(10,441)	17,141
(Increase)/decrease in hardship assessment receivable	(14,772)	(115,834)
(Increase)/decrease in receivables from EPA	2,104	(55,204)
(Decrease)/increase in payable to state	(2,104)	55,204
Net cash provided (used) by operating activities	<u>(\$2,302,292)</u>	<u>(\$3,297,951)</u>
Cash flow from capital and related financing activities:		
Contributions from EPA	8,421,404	1,586,304
Contributions from State of Utah	865,000	716,276
Net Cash provided by capital and related financing activities	<u>9,286,404</u>	<u>2,302,580</u>
Increase (decrease) in cash and cash equivalents	<u>6,984,112</u>	<u>(995,371)</u>
Cash and cash equivalents , beginning of year	<u>24,178,477</u>	<u>25,173,848</u>
Cash and cash equivalents, end of year	<u>\$31,162,589</u>	<u>\$24,178,477</u>

The accompanying notes are an integral part of the financial statements.

State Of Utah
Water Quality State Revolving Fund
Notes to Financial Statements
June 30, 2001

1. Organization of the Fund

The Utah State Water Quality Revolving Fund (the SRF) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (the Act). The Act established the Clean Water Act State Revolving Fund program to replace the construction grants program. Clean Water Act State Revolving Fund grants provide low interest rate loans to finance qualified publicly owned water quality preservation and protection facilities projects. Loans must be repaid within 20 years, and all repayments, including interest and principal, must be credited to the Fund.

The Fund is capitalized by capitalization grants awarded by the U.S. Environmental Protection Agency (EPA). State are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2001, EPA had awarded \$108,859,594 in capitalization grants to the State of Utah (Utah) and Utah was required to provide \$21,771,919 in matching funds.

The Fund is administered by the Utah Department of Environmental Quality through the Division of Water Quality. The Utah Water Quality Board (the Board), an eleven member board of officials appointed by the Governor, develops policies and procedures for program implementation and authorizes loans under the Fund. The Division of Water Quality's primary SRF activities include administering loans for water quality preservation and protection facilities and managing and coordinating the fund.

The Division of Water Quality serves as staff for the Board and the Fund. The Division of Water Quality has seven staff that devote some portion of their time working for the fund. The Division receives assistance and support from the Department of Environmental Quality Office of Support Services, the State Division of Finance, the Attorney General's Office and the State Treasurer's Office. The salaries and benefits of the employees, as well as indirect costs based on direct salary costs, are charged to the Fund based on time spent on Fund activities. Employees charging time to the SRF are covered by the State of Utah personnel benefits plan.

The Fund is included in Utah's Comprehensive Annual Financial Report (CAFR) as part of the general fund, which uses the modified accrual basis of accounting. Because of the different reporting methods, there may be differences between the amounts reported in these financial statements and the State's CAFR. Also, because the Fund is included in the State's general fund; assets, liabilities, and equity of the Fund are not identifiable in Utah's CAFR.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Fund's financial statements are presented as an enterprise fund using the accrual method of accounting whereby revenues are recorded when earned and expenses are recorded when incurred. Utah follows the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board (FASB) before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

All monies of the Fund are deposited with the Utah Public Treasurer's Investment Fund (PTIF) and are considered cash or cash equivalents. According to Utah law, the State Treasurer is responsible for managing cash balances and investing excess cash of the Fund, as further discussed in Note 3. Therefore, management of the Fund does not have control over investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments. Deposits with the Utah State Treasurer are accounted for on the balance sheet as cash or cash equivalents.

Loans Receivable

Utah operates the Fund as a direct loan program, whereby the majority of loans made to communities are 83.3 percent funded by the Federal capitalization grant and 16.7 percent from State matching funds. Additional loans have been made from loan principal and interest that have been repaid to the fund and investment earnings of the Fund. Projects are funded through the purchase of incremental disbursement bond, which are deposited to an escrow account. The community then draws funds from the escrow account, subsequent to an initial disbursement at loan closing, as it expends funds for the project.

Interest rates range from zero to 5.0 percent and are calculated from the date that funds are advanced, and interest is accrued during the construction period. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed. No provisions for uncollectible accounts have been made as all loans are current, and management believes that all loans will be repaid according to the authorized loan terms.

Hardship Grant Assessments

Beginning in 1993, with EPA approval, the Fund instituted a policy of charging hardship grant assessments in lieu of interest on certain loans. Hardship grant assessments are paid in the same manner as interest and are deposited in a special hardship grant account that is not part of the revolving Fund. Proceeds of hardship grant assessments are used to provide

grants to communities for the planning, design and construction of wastewater treatment facilities where otherwise these efforts would not be economically feasible.

In 1998, EPA's Office of Inspector General questioned whether this practice was in accordance with the Clean Water Act and SRF regulations. EPA subsequently granted a deviation from the regulation in 1999 that (1) allowed Utah to keep all hardship grant assessments on loans made from Federal grants awarded prior to 2000, and (2) prohibit hardship grant assessments on future loans funded directly by EPA capitalization grants unless used for one or both of the following alternatives:

(a) added to the funds committed to the grant agreement by the Federal agency and the grantee (and) shall be used for the purposes and under the conditions of the grant agreement; or

(b) used to meet the cost sharing or matching requirement of the grant agreement.

Utah may continue to assess hardship fees on certain loans funded by net earnings of the Fund and principal repayments on loans.

The accompanying financial statements present the combined financial position and result of operations of both the hardship grant assessment fund and the SRF. Details of each fund are reported separately as Supplemental Information.

Contributed Capital

In accordance with generally accepted accounting principles, funds received from EPA and the State of Utah for capitalization of the Fund are recorded as contributed capital rather than fund revenue.

Budget Information

State Match funds are provided to the SRF from revenues of the Water Quality Loan and Credit Enhancement Fund which was created by state law, Utah Code Annotated 1953, Section 73-10(c).

Utah pays for all administrative expenses with federal funds. The required match for the capitalization grant is met by overmatching the required match for loans by an amount at least equal to that necessary to cover its administrative match requirement.

3. Cash and cash equivalents

All monies of the Fund are deposited with the Utah State Treasurer and are considered cash. The Treasurer is responsible for maintaining the cash balances in accordance with the Utah Money Management Act. Utah's Money Management Act requires the Treasurer to invest these funds in a manner that (1) ensures maximum safety of principle, (2) provides adequate liquidity to meet all operating requirements, and (3) achieves the highest possible return on investment consistent with the primary objectives of security and safety. Details

of the investments of the PTIF can be obtained from the State Treasurer.
The Fund earned \$1,580,945 from investments in the PTIF during fiscal year 2001.
Investments in local government investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form, and are as follows:

	<u>Cost</u>	<u>Market Value</u>
Not subject to categorization:		
Local government investment pool	\$31,158,994	\$31,162,589

4. Loans Receivable

The Fund makes loans to qualified entities for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match and revolving funds. Effective interest rates on loans vary between 0.0 and 5.0 percent, and are generally repaid over 20 years starting one year after the project is complete. Loans receivable as of June 30, 2001 are as follows:

<u>Category</u>	<u>Loan Amount Authorized</u>	<u>Disbursements</u>	<u>Repayments</u>	<u>Loan Balance</u>
Completed projects	\$103,591,016	\$103,591,016	\$ 28,290,118	\$ 75,300,907
Projects in process	<u>37,412,000</u>	<u>31,326,000</u>	<u>1,407,279</u>	<u>29,918,721</u>
Totals	<u>\$ 141,003,016</u>	<u>\$134,917,016</u>	<u>\$ 29,697,388</u>	<u>\$105,219,628</u>

Loans mature at various intervals through the next twenty years. The scheduled principal repayments on loans maturing in subsequent years are as follows:

Year ending June 30:

2002	\$ 6,409,780
2003	6,917,484
2004	7,537,412
2005	7,638,821
2006	7,823,487
Thereafter	<u>68,892,644</u>
Total	<u>\$105,219,628</u>

5. Contributed Capital and Fund Balance

The Fund is capitalized by EPA grants authorized by Title VI of the Clean Water Act and matching funds from Utah. All funds drawn are recorded as contributed capital from EPA and Utah. As of June 30, 2000, EPA had awarded capitalizations grants of \$108,859,594 to

Utah, of which \$104,010,006 has been incurred for loans and administrative expenses. Utah had provided matching funds of \$21,012,396. The following summarizes the capitalization grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

<u>Capitalization grants</u>		<u>Total</u>
Grants awarded, June 30, 2000	\$101,879,894	
Current year capitalization grant	<u>6,979,700</u>	\$108,859,594

Contributed capital

EPA Contributions (letter of credit draws) As of 6/30/2001				
June 30, 2000 Balance	Less: LOC Draws Payable as of 6/30/00	LOC Draws made during FY 2001	Plus: LOC Draws Payable as of 6/30/01	Total Letter of Credit Draws as of 6/30/01
\$95,588,602	\$57,004	\$8,419,300	\$59,108	\$104,010,006

Utah State Match Contributions As of 6/30/2001		
June 30, 2000 Balance	Match Draws During FY 2001	Total Draws as of 6/30/01
\$20,147,396	\$865,000	\$21,012,396

6. Contingencies

The SRF is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing SRF business, or acts of God.

The SRF is included in Utah's Risk Management Fund which provides insurance in case of loss or claims against the Fund.

Authorized Projects

As of June 30, 2001, the Board had approved funding authorizations for seven communities totaling \$20,768,000 for loans that had not been made:

**Authorized
Loan Amount**

Hildale City	\$ 1,585,000
Nibley City	6,104,000
Beaver City	2,950,000
Fairview City	250,000
Millville City	2,000,000
Payson City	7,479,000
Salina City	<u>400,000</u>
Total	<u>\$ 20,768,000</u>

Outstanding Committments

As of June 30, 2000 the Water Quality Board had closed the following loans that had not yet drawn all of the authorized funds:

<u>Borrower:</u>	<u>Amount Authorized:</u>	<u>Remaining to Draw:</u>
Mapleton City	\$3,070,000	\$80,000
Moab City	1,821,000	95,458
Washington City	3,356,000	1,126,000
Ephraim City	2,100,000	350,000
Salina City	2,725,000	1,975,000
Snyderville Basin SSD	4,190,000	1,325,000
West Haven SSD	6,536,000	4,500,000
Total	<u>\$23,798,000</u>	<u>\$9,451,458</u>

**UTAH STATE REVOLVING FUND
UNAUDITED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2000 AND JUNE 30, 2001**

	<u>Loan Fund</u>	<u>Hardship Assessment</u>	<u>Total Enterprise</u>
Cash flows from operating activities:			
Net income	\$1,809,916	\$130,545	\$ 1,940,461
Adjustments to reconcile operating income to net cash flow provided by operating activities:			
Loan principal repayments received	6,158,460		6,158,460
Loan advances	(10,376,000)		(10,376,000)
Changes in other assets and liabilities:			
(Increase)/decrease in loan interest receivable	(10,441)		(10,441)
(Increase)/decrease in hardship assessment receivable		(14,772)	(14,772)
(Increase)/decrease in receivables from EPA	(2,104)		(2,104)
(Decrease)/increase in payable to state	2,104		2,104
Net cash provided (used) by operating activities	<u>(\$2,418,065)</u>	<u>\$115,773</u>	<u>(\$2,302,293)</u>
Cash flow from capital and related financing activities:			
Contributions from EPA	8,421,404		8,421,404
Contributions from State of Utah	865,000		865,000
Net Cash provided by capital and related financing activities	<u>9,286,404</u>	<u>0</u>	<u>9,286,404</u>
Increase (decrease) in cash and cash equivalents	<u>6,868,339</u>	<u>115,773</u>	<u>6,984,112</u>
Cash and cash equivalents , beginning of year	<u>23,635,758</u>	<u>542,719</u>	<u>24,178,477</u>
Cash and cash equivalents, end of year	<u>\$30,504,097</u>	<u>\$658,492</u>	<u>\$31,162,589</u>

The accompanying notes are an integral part of the financial statements.